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THE PLACE OF VALUE THEORY IN ECONOMICS. I
I

In the language of the craft "economic theory" has come to mean value theory. A reader who finds these words in a title expects the volume they describe to be concerned with the "origin of value" and its several manifestations in distributive shares. A learner who elects a course of study bearing this name accounts himself committed to a survey, historical or critical, of various theories of value to the end that he may know the truth. A writer who seeks acclaim knows that he can become an accredited "economic theorist" only after he has been beguiled into committing himself to a definite explanation of some of the phenomena of value. In the accepted vernacular the expressions are synonyms.

This is not because "economic" and "value" have a like meaning; for in origin, in development, in association with the things of here and now they part company. Economics has come to include many subjects of study; it resolves and re-resolves itself into many intellectual inquiries; it stretches away through the prosaic subjects of banking, finance, and transportation to accounting, business management, salesmanship, and other inquiries sordidly near to money-changing. Its busy workers, who babble in many tongues upon many subjects, make no pretension of being theorists, and the accepted theorists have no intention of thrusting

upon them this unwonted dignity. Likewise "value" has many manifestations; it cannot be pent up within the narrow bounds within which economists would confine it. It escapes, becomes a property of literature, art, education, and religion, and endows the aspects of life with an attribute even unto the mudsills of existence. Used alone the words "economics" and "value" describe intellectual interests which, converging upon a few common phenomena, diverge and go their separate ways. But the addition of the word "theory" takes from each its disposition to wander, and leaves them with a common concern.

The magic by which "theory" effects this identity produces two startling consequences. On the one hand, it denies to value inquiries in aesthetics, ethics, and education a theoretical character, a denial which does not disturb the spirits of those who seek the truth in these strange places, since the implications of economic terms are among the things of which they are most innocent. On the other hand, as common speech testifies, it refuses to recognize as theory speculation about subjects of economic import other than value. Such exclusion reasonably implies either a denial of the use of sustained and articulate argument to reach generalizations¹ about such subjects as the function of accounting, the nature of insurance, and the place of division of labor in economic organization, or an insistence that such formulations are

¹ In its last analysis "theory" is only generalized description. By study we arrange like phenomena into groups, these as individuals into larger groups, these groups into still larger groups, etc. The series stretches away from the supposititious infinitesimal at one extreme to the hypothetical infinite at the other. About the first of these it is hypothetically possible to make statements free from the slightest taint of generality. About individuals in any group about the infinitesimal it is impossible to avoid generality; hence statements about these groups are in their respective degrees theoretical. "In its most proper acceptation, theory means the completed result of philosophical induction from experience."—John Stuart Mill, *A System of Logic*, Bk. V, chap. vii [first American ed.]. p. 504. Since the thing described can always be resolved into component entities, description involves generalization; since the parts are to some extent unlike and involve relationships, it cannot be free from speculation. Together generalization and speculation make all descriptive work theoretical. Those who deny theoretical standing to the conclusions of finance, accounting, and transportation mean only that their conclusions apply to groups of phenomena much less comprehensive than the groups about which our concern with general economics requires that we seek knowledge.

irrelevant to the larger concerns of economics. Yet, on the first charge, the title of "economic theory" cannot be denied to Brown's conclusions about the nature of commerce,¹ and to Lyon's lucid statements about the relation of the internal organization of the corporation to the process of investment,² for both are speculative in character and both comprise sustained arguments. Nor can they be excluded on the second charge, for both are of general economic significance: the principles of commerce relate to an institution without which industrial society would lose its differentiated aspect, and the theory of corporate organization to the significant subject of bringing together into a system the myriad of investment openings and the savings of a multitude of individuals. Their exclusion can be explained only in conventional terms of lack of concern with value theory. Such exclusions bear evidence that economics is divided into two mutually exclusive parts. One concerns itself with value, still thought of as of overshadowing importance, and uses a method in which deduction is pronounced. The other comprehends an array of practical subjects, such as insurance, corporation finance, and commercial organization, little dependent upon the more general inquiry or upon one another, and presumably subject to "descriptive" treatment.

But with all its magical efficacy "theory" has not caused its economic variant to include all the problems of value which belong to economics. On the contrary it limits its concern to very particular questions. Of these the most obvious is "the origin of value," a logical rather than a historical inquiry, a search for an "efficient cause." Stripped of its nonessentials it is an attempt to discover the minimum of conditions under which economic value comes into existence. Of similar import is the much-contraverted issue of whether value is a quantity or a ratio. These inquiries serve as a basis for a discussion of the variant types of value, such as wages and rent and the schematic relationship of these to each other. Of these types interest, or the income from capital, looms largest in economic literature. Together these questions mark the

¹ Harry Gunnison Brown, *The Principles of Commerce*, Part II, especially pp. 3-18, 86-115, and Part III, pp. 3-36.

² W. Hastings Lyon, *Capitalization: A Book of Corporation Finance*, pp. 1-50.

limit of the value inquiries which may properly be included in economic theory. The selective test is much more restrictive than a mere concern with market prices or general economic values. For instance, von Wieser and Smart are economic theorists even in speculating about the valuation of satisfactions¹ or the more hypothetical phenomenon known as "subjective exchange value,"² because they bring such speculations to bear upon the question of the origin of value. Nor does Fisher lose caste as a theorist when he heaps up psychology, good and indifferent, in an attempt to find the origin of interest in the economic judgment.³ But on the contrary, despite his use of material admittedly economic, Cooley is excluded from the ranks because his concern is with the unconventional subject of the relation of pecuniary valuation to social organization.⁴ More significant still, despite its speculative character and its concern with pecuniary values, Mitchell's treatise on the business cycle is not accounted economic theory.⁵ The term has been withheld by reviewers, who, taking quite literally its descriptive title, observing its lack of conventional statement about value, and deceived by its use of an alien method, have found upon it none of the hall-marks of theory.⁶ The denial is all the more significant since an acceptance of Mitchell's conclusions requires a re-examination of the whole scheme of distribution, most obviously of the law of profits.

¹ Friedrich von Wieser, *Natural Value* (English trans.), pp. 3-19.

² William Smart, *The Theory of Value* (new [second] ed.), pp. 47-51.

³ Irving Fisher, *The Rate of Interest: Its Nature, Determination, and Relation to Economic Phenomena*, especially pp. 88-89, 102-9, 220-22.

⁴ Charles Horton Cooley, "The Institutional Character of Pecuniary Valuation," *American Journal of Sociology*, XVIII, 543-55; "The Sphere of Pecuniary Valuation," *ibid.*, XIX, 188-203; and "The Progress of Pecuniary Valuation," *Quarterly Journal of Economics*, XXX, 1-21.

⁵ Wesley C. Mitchell, *The Business Cycle*, especially pp. 21-41, 452-511.

⁶ It is in point that the reviewers of the book treat it as a contribution to the literature of a practical problem. They overlook at once its theoretical character and its general economic import. In the *Economic Journal*, XXIV, 78-82, Mr. A. C. Pigou characterizes the treatment as "a descriptive analysis of business cycles centered about the prospect of profit." In general he accepts Mr. Mitchell's conclusions, seemingly oblivious to their incompatibility with the assumptions underlying his own theoretical system. See also the review by Warren Milton Persons, "Books on Business Cycles," in *Quarterly Journal of Economics*, XXVIII, 795-810.

It becomes, therefore, pertinent to inquire whether an economic theory limited to a few problems of value can properly claim the dominance over the general subject which has usually been accorded it. On the one hand it is heir to the prestige of the older political economy which preceded it. It is supposed to exercise authority over the work which is done in the subordinate fields, such as money, monopoly, and trade unionism. More important still, even if it cannot be called on for a judgment upon the larger questions concerned with the prevailing economic system, it is supposed to furnish the positive material upon which such a judgment can be based. On the other hand its influence over subordinate disciplines is nominal; it neither forces its problems or methods upon them nor modifies its conclusions because of any results which they gain. Not only are the nature of the price-system and the rôle of pecuniary valuation excluded from its concern, but such institutions as the market, trade, contract, property, and competition, which give the peculiar texture and character to current economic life, are almost unknown to its pages. Its theories of value fall far short of being a theory of the economic order, about which it is expected to speak with authority. Yet from an examination into the origin and nature of value it is expected to give the basis for a judgment upon the goodness and expediency of prevailing industrial arrangements.

In view of these peculiarities the reality or the stage play of an overlordship of economics by value theory is too subtle and too intuitively accepted to be the result of deliberate choice. If the lines which hedge economic theory about were clear cut, if it were a simple and intelligible whole, if it and the subjects about it could be arranged into an orderly pattern, we might regard the identification of economic theory with value theory as a deliberate expression of the conviction of present-day economists. But the peculiar nature of its problems, the derision with which it defies diagrammatic presentation, its sprawling actuality which overrides logical frontiers and erects artificial ones athwart its problems, the arrogance with which it emerges from an examination of the mechanics of value determination to pronounce judgment upon the economic order, give to it the characteristics which make it a living reality

rather than a mechanistic product of heroic intellectual work. Accordingly, if the place of value theory in economics is to be understood aright, it must be seen as a result of a process of development; it must appear in terms of the fortuitous circumstances through which it has come into this strategic position.

II

An attempt to explain the position of value theory in economics by reciting a series of events encounters a preliminary difficulty. It must assess the contributions of many writers to its literature; it must recount many passing doctrines which have left their impress upon value theory; it must thread its way through the maze of many conflicting schools of thought. Seemingly this labor involves only clerical heroics; for in the pages of the histories of economics the contributions of the writers have all been assessed, the doctrines which have stimulated and provoked effort have all been duly set forth, and the teachings of the schools have been put down in definite terms. Unfortunately, however, much of this work confuses the categories of "value theory" and "economic theory," which it is the purpose of this study to separate. The statements of doctrine and the summaries of schools have invariably come from economic theorists or near theorists. They have approached their historical labors fresh from inquiries into the accepted problems of value and distribution. The standards by means of which they have separated the economic from the non-economic have been derived in large measure from conventional studies in modern theory. As a result the contributions of those who knew not modern value economics have been reduced to the terms of value theory. This reduction has been accomplished partly by a selection of the writers and schools worthy of attention because of contributions to these subjects, partly by a selection for study of particular parts of the more comprehensive discussions of these authors, and partly by an abstraction of these selections from their contemporary settings and an interpretation of them in terms of the problems, concepts, and methods of today. To use such judgments in explaining how value theory came into its current position is to assume that it has always been the largest con-

stituent element in economic theory. The difficulty can be escaped, so far as it can be escaped, only by endeavoring to see the economic systems of the past as entities inseparable from the current problems, habits of thought, and common-sense ideas of the periods in which they were produced.

Let us begin with the canonists, to whom if there were such things as value theory and economics, they were undifferentiated aspects of a larger intellectual complex. Since the fashion of their world and the lines of their lives were unlike ours, the prosaic subjects of study which explained the aspects of the social order were quite unlike our current scheme of academic disciplines. If they had no formal place for economic theory, there was at least room for lay theorizing about the economic things of life. But such surmises, guesses, dicta, and statements of truth and error as were voiced formed an inseparable part of a system of social philosophy, itself a mere aspect of a scheme of ecclesiastical jurisprudence, in which a consciousness of other-world ends was still quite dominant. Thus an appraisal of canonistic economics involves a dilemma. If one considers the whole scheme of ecclesiastical jurisprudence, he is likely to find the economic a mere implication of this, and to study an implication is to make it explicit and to rob it of its relations to the larger system of thought wherein its reality lies. To abstract the economic is to sever the tentacles which bind it to mediaeval thought and which bring to economic concepts, principles, and ends their very life.¹ But if one attempts to avoid the errors of

¹ Such a method of abstraction is used by the writers of the various classical schools and by many of the historical economists. Useful as such a method may be to the writers who project all economic thought upon the same intellectual plane and thus find it possible to compare the contributions of different times and places, it is worse than useless in an inquiry which seeks to determine what its object is in terms of how it came to be. It results alike in giving a static character to many institutions which inevitably get into the explanation and in reading modern ideas back into its early steps. A case in point is that of Mr. Albert Augustus Trever, who in *A History of Greek Economic Thought* abstracts the supposed economic thought of the Greeks from their general intellectual systems and gives it explicit expression. In this he does Plato, Xenophon, and Aristotle, the principal authors discussed, the unique and unexpected honor of putting their thought within the categories of John Stuart Mill and reinforcing it with quotations from Ruskin. A like case is that of Mr. Huan-Chang in *The Economic Principles of Confucius and His School*. In justice it must be said that he is at least partially conscious of the difficulties of abstraction, though in

abstraction by studying the whole of the ecclesiastical scheme he is likely to find the economic melting away into shadowy nothingness. In view of this double difficulty safety is to be found only in a minimum of statement. In terms of our problem it is enough to say that the canonists subordinate wealth to a welfare which has much of an other-world content, assume that money-getting is to be subordinated to moral ends, and insist that economic office is to be administered in conformity with a doctrine of stewardship.¹ In keeping with this they treat "distribution" in such a way as to resolve the conflict of interests into an acceptance of the *status quo* of group standards and claims, a scheme of values which can be reduced to the expression, "See what God hath ordained." If it is at all proper to speak of value theory in terms of such a scheme, it was not concerned with inquiries about origins or with the mechanics of price determination, but rather with the practical problem of establishing prices in accord with ecclesiastical justice. It occupied a very humble position in an economics which was still a mere aspect of the reduction of the moral order to intellectual terms.

It is not necessary to examine with any minuteness the doctrines of the mercantilists and the physiocrats who in turn succeeded to the inheritance. Neither was concerned with such problems as would allow modern value inquiries to arise and value theory to become a subject of explicit study.

The significance of mercantilism lies very largely in its substitution of the national competitive state for the moral order of the

execution his zeal to prove Confucius an economist outruns his caution. Such studies may be justified as an attempt to find the contributions made by the authors studied to the development of the immutable principles of economics. But if their intent is to show the real economic thought of the authors much more attention is necessary to the connection of the economic with the general system of thought.

¹ See in this connection Berthold von Regensburg's sermon on the tricks of trade, translated in George Gordon Coulton, *A Mediaeval Garner*, pp. 348-54, and S. Thomas Aquinas, *Aquinas Ethicus* (trans. by Joseph Rickaby), I, 1-31, 156-60, 196-203, and II, 7-17, 91-107, 261-66, 416-19. See particularly S. Thomas Aquinas, *Summa Theologica*, CXVIII; LXXIX, Art. 1, vi et vii. In passing it is of note that the recapitulation of S. Thomas' economics which appears in William J. Ashley, *An Introduction to English Economic History and Theory*, I, 133-48, despite the author's appreciation of its connection with S. Thomas' general ethical system, falls far short of showing the full measure of its dependence.

canonists. This finds expression in a redefinition of welfare in political terms which robs it in a measure of its supremacy over wealth. Into the latter term a more personal content was infused by a literature which was primarily propaganda intended to advance the fortunes of a select group of individuals and corporations. But, as always, personal aggrandizement was clothed in terms of larger purpose, and in form, if not in unconscious intent, the writings discuss the material welfare of a people newly organized into a nation. Thus they replace canonistic teaching with a body of doctrine which is at least national, if it is not political, economy. As yet it contained nothing that can be clearly recognized as value theory. As a subject it was, in terms of a definition, perhaps not wholly anachronistic, an art rather than a science;¹ it was concerned with doing rather than with understanding, with legislation rather than with academic statement. By this time changes in the economic situation had caused many men to find in pecuniary values their chief incentives to economic activity. Accordingly there is much babbling about prices and an occasional bit of quiet cogitation about the inwardness of value. But such "germs" of value theory as generous interpretation can infuse into mercantilist writing lack substance when divorced from the practical ends to which all such arguments consciously or unconsciously tend.

With the physiocrats the case was much the same. Their conception of a natural order, however imperfect it may have been, brought to the competitive national state something of the larger purpose of the older moral order. But if this gave a larger vision and a measure of disinterestedness which the mercantilists lacked, it did not free them from primary concern with the practical problems of their everyday world. In view of their larger inquiries the bits of cogitation in mercantilist writings ripen into speculations extended enough to display an expository character. Among these the subject of value looms larger than before, probably because of

¹ In this it was perhaps not wholly unlike the economics of some other times and places. As indicative of the ever-present tendency of current affairs to give a bent to economic speculation, note the remark, "The English writers who have succeeded Adam Smith have generally set out by defining Political Economy as a science, and proceeded to treat it as an art."—Nassau William Senior, *Four Introductory Lectures on Political Economy*, p. 45.

the individualistic bent which the conception of the natural order imparted. But how far such speculations are from independent existence—much more from domination over the conception of economics—is indicated by the way in which practical ends have written themselves into the categories of productive and unproductive industrial activities, which are among the most important aspects of physiocratic doctrine.¹

III

The failure of value to dominate earlier schools of economic thought will be held to prove nothing. If it is insisted that these forerunners of classical doctrine had no distinct speculations upon value, the obvious reply will be that this fact alone proves that they were not systems of economic thought—that they were tangled and

¹ It is evident, of course, that the terms "productive" and "unproductive" carry the connotation, "toward something." They are teleological, not scientific, in character. Accordingly it was quite proper for the physiocrats, who were nothing if not practical, to use them. Whether particular items were properly charged to the right category can be answered only in view of the practical ends which they had in mind. The issue cannot be debated as an abstract one of what belongs to each of these as scientific categories. Of course one may today classify occupations as "productive" and "unproductive," provided he sets up the end toward which such productivity tends. But this gives no basis for an argument as to whether abstractly his or the physiocratic classification is right. Since the ends of practical economists change from age to age their classification of occupations as "productive" and "unproductive" must also change. The point of the matter, of some importance in the argument to follow, is that in becoming scientific economics has retained concepts of an unscientific nature. Such purposiveness forces the economics built about the concept of value to pass judgments which it cannot adequately make. Note, for example, how N. G. Pierson, *Principles of Economics*, II, 25–28, in employing the terms "productive" and "unproductive," is driven back upon the extra-economic standards of technology to find a distinction between them. Or note how meaningless and fantastic appears the discussion of "productive" and "unproductive" labor which comes upon the reader unawares at the beginning of many a treatise upon general economics which the reader has reason to suppose is scientific—a discussion, moreover, for which he never finds real use. Where they are still retained their concepts tend to be consistent with the utility concept employed, but to this end they are recast to fit the meaning of the latter concept. Peculiarly enough their teleological bent makes most modern theorists shrink from an attempt to make them consistent with their value concepts, and they have been little used in theories of distribution. Such eccentricities can be explained only by a historical account which shows how the general economics whose largest element is value theory has come to use the vocabulary of an older economics whose words refuse to shed their practical meaning.

unsystematized speculations of lay minds which needed the problem of value to give unity to the whole. Accordingly the appeal will be made to Adam Smith, who comes next in historical sequence, and from whom dates economics as a differentiated subject of study.

At first thought one is inclined to make value theory the largest constituent element in Smith's economics. His very name brings to mind half-forgotten discussions of the exchange ratios between deer and beavers, the relationship of labor to value, natural and market prices, and other topics closely associated with modern value inquiries. One remembers, too, that a statement of Smith's about the nature of value is taken as a point of departure for a discussion by Ricardo of the principles of political economy.¹ The abridged edition of *The Wealth of Nations* from which many students of theory have obtained their first impression of the nature of Smith's work is limited quite largely to his discussions of topics which came later to constitute the province of value or which are closely associated with it.² Such others as began with the original text, or refused to content themselves permanently with a mere abridgement, can rarely show by thumb marks acquaintance with many chapters not included in the briefer edition. Moreover, economic literature abounds in references to Smith's value doctrines, his utterances are frequently made the point of departure for historical and critical accounts of the internal history of particular doctrines,³ and even the histories of economics treat his contributions to the literature of value as if they were the significant parts of his work.⁴

¹ David Ricardo, *Principles of Political Economy and Taxation*, chap. i, sec. 1, (Gonner ed.), p. 5.

² *Select Chapters and Passages from the Wealth of Nations*, in the series entitled "Economic Classics," edited by William J. Ashley.

³ Note, for instance, the impression of the nature of Smith's problem and the character of Smith's work given in a critical appraisal by an economic theorist, e.g., Herbert J. Davenport, *Value and Distribution*, pp. 8-28. In view of his task Mr. Davenport quite properly limits his discussion to certain topics treated by Smith. But our quarrel is that these are discussed in terms of economic inquiries whose formulation followed the time at which Smith wrote by many years.

⁴ For instance, by far the largest amount of space is given to a discussion of topics which came later to be associated with value theory in the chapter on Smith in Lewis H. Haney, *History of Economic Thought*, pp. 158-89. Even M. Rist, whose historical

But this very recitation of the sources whence have come our most familiar impressions of his work indicates that we usually have in mind a traditionalized Smith re-created in the intellectual likeness of another age. It is from this assumption of Smith as a value theorist that we must free ourselves if we would understand aright the place of value in his economics.¹

In the first place it is of note that Smith's book is theory in the accepted sense. As a whole it is a sustained and, in its larger outlines, a consistent inquiry into the nature and causes of the wealth of nations. In its more comprehensive aspects the treatment is speculative; in its execution in detail it abounds in historical incident and contemporary fact. The systematic way in which conclusions on minor points are gathered into larger generalizations and the whole is organized into a single coherent discussion of a problem of vital social significance leaves no doubt as to its character. But that it is economic theory, or value theory, is by no means so obvious. Its general thesis connects the material well-being of a people with a policy of governmental non-interference with the tendency of the industrial system territorially to organize itself along natural lines.² Because of its double concern with national

sense is keen and whose judgments are relatively free from these anachronisms, remarks upon the crudeness of Smith's notion of pecuniary income compared with that of Irving Fisher. See Charles Rist, "Adam Smith," in Gide et Rist, *Histoire des Doctrines Économiques*, p. 96, note 5.

¹ Fortunately Smith's own work is the best antidote for these impressions. If one will not read, he may remember Smith as the author of *The Theory of Moral Sentiments*. He may attempt the useful and stimulating exercise of trying to determine the concept of economics which finds expression in the *Lectures on Justice, Police, Revenue, and Arms*. And if his impression of the Ashley reprint is vivid, he may efface it by means of the edition of *An Inquiry into the Nature and Causes of the Wealth of Nations*, edited by Edwin Cannan. Besides Smith has by no means always been badly written about. While none of the critics completely escapes from an unconscious assumption that Smith is a value theorist, much evidence that he was far more than that is afforded in numerous secondary accounts. To mention only the best known, there are the accounts of his economics in Charles Rist, *op. cit.*, pp. 58-135; John Kells Ingram, *A History of Political Economy* (new and enlarged ed.), pp. 81 ff.; and Edwin Cannan, *A History of the Theories of Production and Distribution in English Political Economy from 1776 to 1848, passim*.

² The general thesis, so obvious even from the nature of the book, requires emphasis because it is so frequently translated into terms of the general bias of economic doctrine in the Ricardian age. The "obvious and simple system of natural liberty,"

wealth and governmental policy, it might be called indifferently "social ethics," "social politics," or "political economy." Of these terms the first seems objectionable because standards of national well-being are assumed rather than definitely discussed. The second seems likewise faulty in both of its terms. The word "social" seems too comprehensive, for, despite his consciousness of other institutions, Smith shares with the writers of the eighteenth century the notion of the dominance of political authority. The word "politics," too, as a substantive is objectionable, for Smith's concern with the government is the negative one of its ability to interfere with the nation's wealth. If, therefore, only the term "political economy" is left, it is suitable for other reasons than the mere inadequacy of its substitutes. As indicated in the statement of his thesis above, one of Smith's principal contributions is the removal of the idea of competition from the concept of nationality. This makes the interests of nations harmonious and the concern of his treatise "political" rather than "national" economy.¹ If

which Smith championed, had reference to the territorial "division of labor," not to relations between employers and employees. To express his idea graphically, even if not quite precisely, we may say that he wanted the economic order to correspond to the natural order. That the conditions and terms of employment should be left unregulated he seems to deny, first by the lack of principal concern in the volume with that class of problems, secondly by several incidental statements whose meaning seems clear enough. Note, for instance, "Whenever the legislature attempts to regulate the difference between masters and their workmen, its councillors are always the masters. When the regulation, therefore, is in favor of the workmen, it is always just and equitable; but it is sometimes otherwise when in favor of the masters."—Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, book I, chap. x; [Cannan ed.] I, 143. That the drift of the argument is toward the territorial organization of industry is of the highest importance, since the organization of labor, capital, and land in the creation of values to be distributed is the line of development along which value theory has come into its dominant position.

¹ It has often been surmised that the use of the words "political economy" by Smith's friend Sir James Steuart in the title of his book which appeared in 1767 precluded their use by him. However this may be, the full title of Steuart's work indicates something of the idea of the people of the time as to the content of political economy. It is *An Inquiry into the Principles of Political Oeconomy: Being an Essay on the Science of Domestic Policy in Free Nations, in Which Are Particularly Considered Population, Agriculture, Trade, Industry, Money, Coin, Interest, Circulation, Banks, Exchange, Public Credit, and Taxes*. Note the concern with the arrangements of the industrial order and the lack of prominence attached to those topics now closely associated with inquiries into value.

his contribution, therefore, is economic and theoretical, it differs from previous contributions, not in attaining to a positive inquiry, but in being the work of a professional student, lacking personal pecuniary interest and possessing ability and training to make a disinterested inquiry.

In the second place it is worthy of explicit statement that Smith's subject of study was a practical problem of current importance rather than a prescribed academic subject of study. While, at least in its invidious sense, he is free from the suspicion of propaganda so convincingly brought against his predecessors, the book has a very practical intent. He has as little use as they for academic speculation carried on for its own sake or for the delight of the speculator. Accordingly he subordinates his many inquiries into "what is" to the larger inquiry of "what should be." These subordinate discourses, it is true, run off into queries about rent and money and taxes and education, leading to statements which meet the demands of even the most positive economists. But the subjects he selects for discussion, the questions he asks about them, and the use he makes of the results attained are all germane to his practical purpose. In terms of a distinction which he did not make, his many contributions to "economic science" are a by-product of his one great contribution to "economic art." To him the larger problem was how to use limited resources territorially to secure the largest national wealth. This problem makes of his subject not "economics," or "economic science," but "political economy."

In the third place the political economy of Adam Smith found expression in a series of problems which came eventually to constitute the division of general economics called "production" rather than that to which the term "distribution" is appended. His concern is with the material well-being of the national group, and its emphasis falls, therefore, upon the "whole annual product," which is conceived of in terms of an aggregate of material goods rather than as a pecuniary magnitude. There is an emphasis throughout upon the technical side of industry, upon the production of more goods, and upon "the progress of opulence" among the nations. The discussion of "the division of labor," with which the volume begins, is an essay, not upon a single productive device,

but upon the aspect of economic organization most closely connected with productive efficiency. Its use is alien to that of the modern theorist who employs it to prepare the way for a dialectical discussion of the distribution of income. And, as we have seen above, the thesis of the book, which is a protest against confusing an economic entity with a national unity, is a plea for an international division of labor based upon a divergence of natural resources among different countries.¹

It is only against the background of this discussion of the relation of the economic order to national wealth that Smith's excursions into "value theory" can be understood. The discussion of the division of labor leads him to a consideration of money; this in turn leads to an inquiry into processes of exchange, which of course involve value and prices; and eventually he resolves price into its component parts of wages, profits, and rent.² But, since price is dependent upon the rates at which labor, capital, and land are remunerated, it is necessary to study these rates.³ They are studied separately, no attempt being made to reduce them to a

¹ Since Smith's time economics has wandered far from the division of labor as a point of departure. This is but saying that it has at least partially lost sight of its essential problem of explaining the organization of industrial society, or of describing "the economic order." Yet, because of the machine technique, the division of labor has become more important than it was in Smith's day. It is therefore interesting to see, in a book published one hundred and forty years after *The Wealth of Nations*, a return to tradition. After an introductory chapter upon methodology, Henry Clay begins his *Economics: An Introduction for the General Reader* with a chapter upon "The Division of Labor." See pp. 22-48.

² While the parallel is by no means exact, it is suggestive to compare Smith's approach as presented above with that of a group of economists who are now attempting to explain the organization of society in its pecuniary aspects. They begin with a complex and delicate organization of society comprehending an elaborate "differentiation of economic functions." They find that through the agency of the "pecuniary calculus" the organization is maintained. Individual prices, into which the whole scheme resolves itself, are the incentives to the activity which finds expression in this organization. Through accounting they resolve these prices into the elements which make them up. It is not in their thought to make a study along accepted value-distribution lines.

³ The two sentences above are a mere paraphrase of the explanation set forth by Edwin Cannan in the "Editor's Introduction" to this edition of *The Wealth of Nations*, pp. xxvi-xxvii. See also Edwin Cannan, *A History of the Theories of Production and Distribution in English Political Economy from 1776 to 1848*, p. 230. The matter cannot be covered by particular references to *The Wealth of Nations*. The reader must be referred to the whole of Book I.

coherent system of distribution. In fact, so far as there is a real theory of distribution, it "is inserted in the middle of the chapter on prices as a mere appendage or corollary of his doctrine of prices."¹ Smith does resolve the total product into the aggregates which go respectively to the classes of laborers, landlords, and capitalists, but this makes no use of a principle of value. Of the conception of the use of principles of value to resolve a dividend of fixed pecuniary magnitude into the all-inclusive and mutually exclusive shares of the persons who constitute these classes there is little evidence in the book. Of value inquiries proper much the same thing can be said. The question of "the origin of value," if it is dealt with, is dealt with scatteringly. The irrelevant material which intervenes between the several passages in which it is discussed and the many contradictions which they contain make it hard to believe that Smith recognized it as an explicit subject of inquiry. It was the "division of labor" which led him into a quest for "the real measure of the exchangeable value of all commodities,"² though there is some evidence for thinking that he was really hunting for a definite standard in terms of which he could measure the respective wealths of nations.³ In these and like inquiries the drift of the argument is not toward the mechanics of value determination,⁴ but rather in the direction of organization,

¹ Edwin Cannan, *A History of the Theories of Production and Distribution in English Political Economy from 1776 to 1848*, p. 186.

² Adam Smith, *The Wealth of Nations*, Book I, chap. v; (Cannan ed.) I, 32-48.

³ The nature of the inquiry in which he is engaged requires of him some definite means for measuring "the progress of opulence." It is not to be supposed that in view of his conception of wealth as material goods Smith was entirely oblivious to this requirement. Besides, various passages seem to imply that if this was not the end, it was one end of his search for a measure of value. For instance, note the following: "Labour, therefore, it appears evidently is the only universal, as well as the only accurate, measure of value, or the only standard by which we can compare the values of different commodities at all times and at all places."—Adam Smith *op. cit.*, Book I, chap. v; (Cannan ed.) p. 38.

⁴ If *The Wealth of Nations* be regarded as the type of classical political economy, its nearest modern prototype is N. G. Pierson, *Principles of Economics*. Pierson frankly avows economics an art rather than a science (I, 1-9) and regards an increase in the national dividend as its central problem. He, therefore, subordinates "value and distribution" to a treatment of "production," which he makes the all-comprehensive subject of inquiry. His thesis has in general escaped the notice of English

technique, governmental authority, and other aspects of social organization.¹

In the fourth place it is important to note what is commonly called the institutional character of Smith's treatment. If an explicit discussion of the modern problem of value is lacking, the deficit is more than made up by many suggestive discussions of the rich and varied aspects of contemporary social arrangements. Smith deals with the whole scheme of mercantile restrictions as a system of institutions profoundly affecting the wealth of the nation. If he does not draw up an institutional system to take its place it is because his theory of non-interference frees him from that necessity. His belief in personal liberty, evidently growing as the book was written, led him to the conclusion that individuals would voluntarily substitute for pernicious institutions others more in accord with human nature. His growing optimism mounted to a faith that if students were allowed free choice of courses and professors were made dependent upon their fees for support, the arrangements for higher education would be recast into a much improved mold.² If, in suggesting such plans for institutional reform, he was prone to read an undue simplicity into social arrangements, this did not prevent his elucidation of current institutions in great detail. He treats of such subjects as the development of technique, the form of business organization, the function of money in furthering what

readers, since the translation of the first volume, which includes the treatment of "value" and "distribution," preceded by several years the second, which comprehends the subject of "production."

¹ Perhaps no other evidence throws greater light upon the misconception of Smith's concern with value theory than a comparison of the Ashley reprint of *The Wealth of Nations* with the unabridged text. In the former the discussions which can reasonably be classed under the headings "value" and "distribution" occupy about 170 out of a total of 285 pages. In the larger edition they occupy about 250 out of a total of nearly 900 pages. While the opening chapter is retained by Ashley the omission of later discussions robs the subjects treated of a great deal of their significance. Of course the figures given above are at best approximations, for the double reason that there is no unanimity upon the topics which make up value theory and because Smith's discussions are capable of more than one classification. Some will perhaps be inclined to the opinion that the 170 and 250 pages allowed respectively to the two editions for theory is a decided overestimate in view of the character of Smith's work.

² Adam Smith, *The Wealth of Nations*, Book V, chap. i, article 2, "Of the Expense of the Institutions for the Education of Youth," Cannan ed. II, 249-73.

we now call industrialism, the appraisals of agriculture by many peoples, the influence of urban development upon rural welfare, the maintenance of justice, the nature of monarchy, and the character and functions of war. These things are not dealt with in isolation; they are one and all related to a coherent economic inquiry into the material well-being of the people of a nation. They are aspects of an "economic theory" in which dialectical discussions of the nature and manifestations of value are quite incidental to a larger concern with the institutional basis of national wealth.

IV

It is interesting to speculate upon the development which economic theory might have undergone had Smith's conception of the subject remained dominant. But the sequence was broken and a new method, a new viewpoint, and new problems were brought to it. This was due in part to the appearance of new problems and to the writings which they inspired; in part to the interests and discretion of a new age which accepted certain writings and rejected others; and in part to the establishment of an economic tradition which has placed certain contributions in the line of economic succession and has denied place to others.¹

The Smith tradition, however, did not terminate abruptly. Instead it tended to dissipate itself in intellectual efforts further and further removed from the spirit and the intent of the master. Godwin's work, for instance, is concerned with a problem much like Smith's, but the tangible inquiry into wealth is replaced by the more nebulous one into social justice, and Smith's well-directed shafts at institutions are supplanted by incoherent criticisms of the social order in general.² Malthus, too, kept the problem in his essays upon population, but related national wealth to the ratio of numbers to resources, thus taking the issue out of the domain of

¹ The established sequence of studies which leads from Smith to current economic theory has been arranged in large part after the fact. Were we to examine all the writings of the Ricardian period it would be very difficult to generalize about them; but the task is simplified by being limited to those which have been placed in the sequence.

² William Godwin, *An Enquiry concerning Political Justice and Its Influence on General Virtue and Happiness*, published in 1793.

social arrangements and making it a matter of nature and human nature.¹ His thesis found later expression in the earlier law of diminishing returns from land, which was used primarily to explain national welfare rather than particular values.² Something, too, of the Smith tradition is found in his more pretentious treatise on political economy.³ It was also manifest in the early part of the nineteenth century in a flood of writings upon population and political economy.⁴ In these the tendency is away from economic to more general social inquiries, and the programs which they suggest are anarchistic or authoritative rather than liberal. This literature is by no means lacking in acumen and deserves vastly more attention than it has received at the hands of students of

¹ Thomas Robert Malthus, *An Essay upon the Principle of Population as it Affects the Future Improvement of Society, with Remarks upon the Speculations of Mr. Godwin, M. Condorcet, and Other Writers*. But notice the title of the second edition, *An Essay on the Principle of Population; or a View of Its Past and Present Effects on Human Happiness; with an Enquiry into Our Prospects Respecting the Future Removal or Mitigation of the Evils Which It Occasions*.

² This conception of the law of diminishing returns, or rather this particular law of diminishing returns, is responsible for the epithet "dismal science" hurled against economics. It is a crude approximation of the law of diminishing returns for "countries as wholes" as stated by Fred M. Taylor, *Principles of Economics* (first ed.), p. 129. Since the increase or decrease of the national return, even within the assumptions of the law, is dependent upon a number of factors which do not act together, it is hardly appropriate to call it a law. Mr. Taylor very carefully distinguishes it from the "instrumental" (p. 111) and the "industrial" (p. 123) laws of diminishing returns. Since his book is concerned with "value and distribution" and since it is the "instrumental" law which is the technical basis of the value problem, consistency has required of him a modification of his treatment. Therefore it is not surprising to see that in the fourth edition of the book the law for "countries as wholes" is omitted altogether. Thus it comes about that a doctrine whose objective is welfare is gradually changed into one whose end is to throw light upon the value problem.

³ Thomas Robert Malthus, *Principles of Political Economy, Considered with a View to Their Practical Application*. See particularly chap. vii, which became Book II in the posthumous edition. One cannot help wondering how much the dictates of value theory have been responsible for the attention given Ricardo and the neglect thrust upon this treatise of Malthus by those who have reduced the history of economics to formal statement.

⁴ It is interesting to note that Ricardo joined "political economy" to "taxation" to form the title of his book, while several anti-Ricardian writers associated "political economy" with "population." Note, for instance, the significant title used by Piercy Ravenstone, *A Few Doubts as to the Correctness of Some Opinions Generally Entertained on the Subjects of Population and Political Economy*.

economics. The oblivion into which it has very nearly fallen has been due rather to its lack of social respectability than to its intellectual shortcomings. At best it attracted little favorable attention at the time, at least from those in the seats of the mighty; its direct influence upon social legislation was not appreciable; and its emotionalism, class bias, and cosmic concern were sufficient to keep it from the catalogue of orthodox writings. Thus historical circumstance and critical selection joined hands to dim, if not to eclipse, Smith's conception of political economy.

The next change in the dominant character of economic speculation, and hence of value theory within the larger field, has come to be associated with the name of Ricardo. How proper it is to assign the change to his writings, how justly it can be attributed to a school of which he was only the most conspicuous member, and how reasonably it can be charged to tradition which has hallowed his name and read later meaning into his utterances, are questions which can safely be left to one side. The peculiarities of style, expression, and arrangement which characterize his writings will lead almost every student to concur in the opinion that there are as many Ricardos as there are critics of his works.¹ For our purpose it is sufficient that he represents a change in the field of inquiry of serious import as regards the value problem.

The nature of Ricardo's conception of economics is indicated by his approach to the subject. Like Smith, he was not a professional economist. Like him, he came to the subject because he found an examination of its phenomena essential to an understanding of current problems in which he was interested. Like him, he draws

¹ Compare the two opinions upon the difficulties of Ricardo's style which follow: ". . . . he is never obscure from any confusion of thought, but, on the contrary, from too keen a perception of the truth, which may have seduced him at times into too elliptic a development of his opinions, and made him impatient of the tardy and continuous steps which are best adapted to the purpose of the teacher."—Thomas De Quincey, "Dialogues of Three Templars on Political Economy, Chiefly in Relation to the Principles of Mr. Ricardo," in *Politics and Political Economy*, p. 204. "Like most people who have not had the advantage of a literary education, Ricardo was apt to think that a word ought to have whatever sense he found convenient to put upon it."—Edwin Cannan, *A History of the Theories of Production and Distribution in English Political Economy from 1776 to 1848*, p. 195.

no sharp line between economic "art" and economic "science"; in fact, the nature, the number, and the concern of the positive inquiries in which his writings abound are all determined by the problems in which he is interested. For that reason he aims at relevant principles and succeeds so well that they take their meaning from the inquiries to which they are incidental. Like Smith, his inquiry is free from the conscious and thin-veiled prejudice of the propagandist. But if Ricardo was like Smith in his approach to the subject, he differed from the latter in the nature of the subject approached. Smith, a "moral philosopher" with an ethical bent, viewed society as a whole and turned his eyes to the less immediate future. Ricardo, never escaping the viewpoint of the counting-house, saw in its more immediate aspects the material welfare of a host of individuals belonging to a number of competing groups. Smith was concerned with a political economy whose problem was social vision, Ricardo with one concerned with immediate governmental administration.¹ Smith's discussion runs toward a policy, Ricardo's toward a program.

In the light of these statements Ricardo's conception of the subject-matter of economics becomes evident. It came to him from many years' concern with the problems of a developing industrial society, and was ripened by earlier controversial pamphlets into the semi-academic concept which is implicit in his formal treatise.² The unwonted character of such a production is responsible for his conscientious attempt to lay aside the weapons of controversy and to present his material in scholarly form. In its execution he succeeds in spoiling its controversial value without attaining the goal of abstract and unbiased exposition. In the confusion one has to look carefully to note that his real points of departure are the old issues of "currency" and "bullion" and the

¹ The modern reader is inclined to accuse J. R. M'Culloch of careless statement in referring to Ricardo's work indiscriminately as "political economy," "political science," and "political philosophy." See his "Life and Writings of Mr. Ricardo," in his edition of *The Works of David Ricardo* pp. xv-xxxii. Yet this is not so much an indictment of M'Culloch as a comment upon the undifferentiated character of the subject as late as his time. One is tempted to add that it reveals a conception of "political science" as concerned with programs rather than with the machinery of administration.

² David Ricardo, *Principles of Political Economy and Taxation*.

taxation of the wares of international trade.¹ The first of these draws his attention to money, to credit, and to the exchange prices of goods and services, and this leads to an extended inquiry into the source and the measure of value. Incidentally it gives him a conception of wealth which is much more pecuniary than Smith's. In terms of the second, the problem of the distribution of wealth is that of the division of income between competing groups rather than between the persons who compose these groups. In this it is inevitable that the law of rent, which throws suspicion upon the incomes of all landlords, should be the spectacular climax toward which the whole theory moves. If Ricardo is not as conscious as later economists that distribution is a series of value problems, his pecuniary approach causes him to see the value aspect of such problems. In addition, instead of explaining the shares separately, he tried to reduce them to a system. Still the impression left by the whole is that the discussion of distribution is a pertinent by-product of his inquiries into current problems of taxation.

It is evident that Ricardo's pecuniary and fiscal conception of the subject leaves scanty space for a consideration of institutions. There is no explicit part of the book, stretching away on the one hand to general material well-being and on the other toward technique, organization, and arrangements, to which the title "production" can be given. On the contrary the institutional matter of the older treatise is omitted, is made to serve the purposes of an economics of currency and fiscal reform, or is irrelevantly inserted to give a seeming unity and symmetry to an academic treatise. Thus, to cite but a few examples, the division of labor as the fundamental institution of an organized economic life is gone, and its initial place in the treatise is taken by the business category of market value; landed proprietorship becomes the obvious fact of income from land; colonial policy is translated into an affair of

¹ "We are indebted to the bullion controversy of 1813-15 for the Ricardian theory of value, and to the Corn Law controversy of 1813-15 for the Ricardian theory of rent and distribution in general. Read with the pamphlets which preceded it, Ricardo's *Principles of Political Economy and Taxation* is intelligible enough. Read without them it is the happy hunting-ground of the false interpreter."—Edwin Cannan, *A History of the Theories of Production and Distribution in English Political Economy from 1776 to 1848*, p. 388.

colonial trade; and technique is represented by a chapter on machinery which is an irrelevant addendum to a completed treatise to which it remains foreign.

In appraising his contribution it must not be forgotten that Ricardo's aim was a scientific statement of economic principles. He wrote at a period of life when the strain of controversy was less severe than when the pamphlets were penned; the form of a statement of immutable principles was deliberately chosen; and great care was taken to abstract from experience and to give a generalized character to his conclusions. Yet at his unacademic hands abstraction proved impossible and his principles seem relevant only to the problems whence they came. Even a cursory examination of the treatise reveals in viewpoint, in chapter headings, in order of topics,¹ in assumptions, the fact that Ricardian economics is a by-product of Ricardian politics. But, if Ricardo failed in his academic venture, he succeeded in cutting economics loose from its larger social interests and in giving a semi-aloofness to a number of discussions which later were to become the basis of a value economics.² If the importance of value was increased at his hands, this was due as much to a restriction of the more general field of study as to an elevation into dignity of the theory of value within it.³

¹ Ricardo tried to arrange his topics in an academic order. The trouble which DeQuincey and Gonner have taken to suggest an even more academic order is evidence of the kind of interpretation which is responsible for the tradition of Ricardo as an abstract value-theorist. See Thomas DeQuincey, "Dialogues of Three Templars on Political Economy," etc., in *Politics and Political Economy*, p. 209, and E. C. K. Gonner, "Introductory Essay," in David Ricardo, *Principles of Political Economy and Taxation* (Gonner ed.), pp. xxvi-xxviii.

² If the foregoing analysis is correct a formal concern with value theory cannot be imputed to Ricardo. For this reason one must protest against the impression of the nature of *The Principles of Political Economy and Taxation* conveyed by the reprint of the first six chapters in the series entitled "Economic Classics" and edited by William J. Ashley. The selection of these as the important part of his work is due, not to their current importance, but to the dominance of the Ricardian tradition which was just beginning to be built up. In this connection it is of note that Ricardo's contemporary reputation did not rest upon the *Principles*. On the contrary a large part of the contemporary regard for the book was a reflection of the regard which the author had already won in the alien field of controversy.

³ The shift of the problem of economics from a concern with general welfare to considerations of the pecuniary well-being of competitive groups was due in part to Smith's own influence. By denying to the government many of its functions of

V

The problem of differentiating economics from controversial questions and translating it into an intellectual discipline required for its solution a defter handling and a less personal concern with everyday affairs than Ricardo could bring to it. For this task John Stuart Mill¹ possessed the double qualification of familiarity with economic literature from his youth and an interest in the subject which was academic rather than practical. The detachment which had prevented confusion of his subject of study with any layman's view of the cosmos had found expression in writings of a philosophical character. Unlike Smith, he was at the time a champion of no particular social policy; unlike Ricardo, written argument was not born of a desire to further political proposals. His training and experience, particularly his concern with logic, had given him regard for the impartial, systematic, and formal standards of academic discipline. Had it not been for the solicitation of others Mill's treatise upon political economy might never have been written. When it was undertaken it was to bring order to a body of thought scattered here and there in many books and seemingly defying systematic presentation.

The work which he produced was a system of political economy which, in comparison with what had gone before, was encyclopedic. To this end he sought in economic literature for those general expositions which could be abstracted from their current settings and converted into economic principles. Since his interest was academic he had no hesitation in severing the tentacles which bound them to the world of action and of thought whence they sprang. As a

industrial overload, indirectly and perhaps quite unconsciously he discredited action by the only agency which in popular thought was deemed capable of action. By seeming to connect general good with the economic freedom of the individual his influence tended to a growing popular concern with welfare in its distributive aspects.

¹ It goes without saying that Mill was not personally responsible for the whole of the work involved in translating economics from a concern with practical problems into a formal discipline. He was simply the most conspicuous of several whose efforts took this direction. Yet his pre-eminence and the place assigned him in the traditional sequence of writers on economics make it quite appropriate to use him as a convenient means of illustrating the next change which was effected in the position of value theory in economics.

logician his function was to cut and fit these contributions into a comprehensive, articulate, and consistent intellectual system. For this purpose he needed a criterion by means of which his material might be selected and in terms of which it might be grouped. His training led him to select for this use, not a current problem, as Smith or Ricardo would have done, but a logical concept. Quite inevitably the category of wealth which he chose robbed the volume of the organic unity which a problem would have imparted and left a mechanical entity in its place.

The title of the volume¹ indicates alike the reservation of the right to discuss questions of general social welfare and an announcement that these are to be subordinated to more immediate concern with economic principles. This alternation of interest is the key to the treatise which runs through five general discussions concerned with as many separate inquiries about wealth. The first two of these are occupied with the subjects of "production" and "distribution," which owe their origins respectively to Smith and Ricardo. An inconsistency between their problems, a very different one from that which the value theorist would point out, is admitted by Mill, who remarks that the laws of the first are imposed by "the constitution of external things" and by "the inherent properties of the bodily and mental structure" of mankind, while those of the latter depend upon "human institutions."² The first is concerned with the production of material goods and runs into terms of technique and organization. Its subordination to the

¹ *Principles of Political Economy, with Some of Their Applications to Social Philosophy.*

² John Stuart Mill, *Principles of Political Economy*, Book II, chap. i (Ashley ed.), pp. 199-200. If we substitute "natural law" for "the constitution of external things," a substitution which does little violence to the thought, and "the laws and customs of society" for "human institutions," a substitution which Mill himself makes (p. 200), his meaning becomes more intelligent to us. As for the first, we are likely to insist, as Smith would have done, that the production of wealth may be retarded and advanced by the devices of the government and other agencies of control. As for the second, it is interesting to note that so long as "the distribution of wealth" meant to economists merely the division of pecuniary income and so long as its laws were corollaries of the natural law of value no statement of Mill was more vigorously disputed. By many economists it was actually treated with contempt. But since the problem of distribution is emerging from these pent-up boundaries and is coming to include a concern with institutions, Mill's statement is beginning to be regarded more charitably.

older inquiry of general material well-being is not stated, though it is implicit in many discussions as, for example, of what labor is and what is not productive.¹ But despite the Smith tradition, which is evident in the larger outlines of the discussion, at his hands Ricardian influence is beginning to permeate it. The "division of labor," a fundamental characteristic of society to Smith, is by Mill regarded as one of a number of productive agencies. The social conditions affecting production are crowded into another of the books or out of the treatise altogether. Particular devices are adjudged effective or non-effective as they are found to be profitable or unprofitable. But the item of greatest significance is the attention given to the "factors of production," a classification which reflects the influence of the value-distribution problem. Peculiarly enough, however, they are treated quite largely in technical terms.

The second book of the treatise, devoted to "distribution," attests a like clash between rival conceptions of economics. An institutional treatment of the subject is suggested by an insistence at the beginning that its laws are "the laws and customs of society," by a discussion of the conventions of private property with which the discussion opens, and by a relegation of the formal principles of value to the next book. That the distribution of wealth means to Mill much more than division of pecuniary income is further evidenced by his treatment of economic classes, competition and custom, slavery, and similar "human institutions." Yet the banished Ricardian influence appears in the latter part of the book in the familiar discussions of wages, rent, and profits.²

¹ Note the display of Mill's academic viewpoint here. Ignoring the teleological character of the concepts "productive" and "unproductive" he translates them into positive logical categories. It is interesting to see that his logical lines cut athwart the ethical distinctions which he is willing to make. See *ibid.*, Book I, chap. iii, pp. 44-53.

² In the edition of Mill edited by William J. Ashley (unabridged), 144 pages of the discussion of distribution are devoted to aspects which we should call "institutional" and only 92 to the subjects which are germane to the value problem. Even this does not adequately represent the situation, for the latter discussions are not treated under the heading "value," and they contain some material of an institutional character. In this connection one must voice the oft-repeated protest against a later abridgment which creates a conception of Mill in terms of a later traditionalized

The third book, concerned with "exchange," shows the Ricardian influence most clearly. It combines an extended discussion of value with an involved treatment of money. This seems to indicate that even as late as Mill's day the theory of value was more closely identified with monetary problems than with the question of distribution.¹ Here Mill lacks the success he attains elsewhere in freeing economic principles from their incidence of time and place and giving them abstract statement. In the fourth book, concerned with the "influence of the progress of society on production and distribution," the general title and some particular discussions, as, for example, that upon the probable future of the laboring class, suggest Smith. But the tendency of the argument to return again and again to questions of value and of distributive shares shows the bent of the discussion. The fifth book, which treats of "the influence of government," shows the same divided allegiance. The chapter which precedes the closing one is a lingering survival of the argument against the mercantilists which occupied the whole of Smith's fourth book, augmented by a protest against new species of governmental restrictions based upon "erroneous theories." The rest of the book, except the first and last chapters, is filled with a Ricardian discussion of taxes, tax measures, and tax reforms. The exception, particularly the last chapter, is devoted to a brilliant discussion of the relation of the state to industry. Thus the query which gives unity to Smith's treatise remains as a subject of separate speculation with which Mill's volume comes to a close. It is the

Ricardo. In his abridged edition of the *Principles of Political Economy*, J. Laurence Laughlin explains his omissions of the non-Ricardian parts of Mill as "the omission of much that should properly be classed under the head of Sociology or Social Philosophy." See the preface, p. iii. In Book II, "Distribution," he throws the first two chapters, which treat of property, together into one, omits the next nine, which are concerned with institutions, and keeps almost intact the Ricardian discussions of the division of income. In this edition the discussion of institutions occupies 20 and the division of income 63 pages. In the latter part of the volume little of the material bearing upon money and monetary problems and institutions is omitted. In Book V the first and the last chapters, which are concerned with social policy, are stripped away and the book remains a Ricardian discussion of problems of taxation.

¹ It is interesting that in his early reading in economics under the direction of his father Mill found the most subtle and interesting material in Ricardo's monetary discussions. See his *Autobiography* (first ed.), pp. 27-28.

presence of this last chapter, whose connection with the rest of the treatise is frail and uncertain, which really justifies Mill in the use of the words "political economy" in his title.

The monumental work of Mill marks the end of an era; it is the product of a mind which worked best when it worked last. Before Smith economics was an undifferentiated aspect of popular speculation about the social order in general. For economics to become a separate academic discipline three lines of cleavage had to be drawn: first, disinterested and systematic effort had to replace biased and ill-advised speculations; secondly, the economic realm had to be separated from other disciplines concerned with society; and thirdly, the statement of principles had to be drawn away from arguments upon passing economic problems. The first of these was accomplished by Smith, who replaced "lay" with "professional" social science; the second by Ricardo, who, however imperfect his accomplishment, by forcing into the concept pecuniary, fiscal, and business notions made it clear that economics did not comprehend the social universe; and the third, by Mill, who freed speculation from capricious subjection to passing problems and made of it an academic discipline, an intellectual entity, which henceforth could have its separate and independent development.

The new-won freedom of economics as a separate discipline gave to value a new place and a new importance. At Mill's hands economics became more systematic, but less organic, than it was to Smith. In fact, it was little more than a mechanical scheme, comprising many inquiries abstracted from many practical discussions, and held together by the artificial device of inclusiveness within a logical category. It was aloof from the passing concerns of the day; therefore, a more organic unity could not be found in a rearrangement of its material to serve some practical purpose. It was in position to acquire a body of traditions of its own which were to determine its future identity, its future province, and the direction of its growth. It was to draw to itself a group of professionals, of votaries who were schooled in its dogma rather than in the affairs of life, and who could be depended upon not to betray its traditions. If an idea to replace the mechanical unity of Mill with one more organic was to come, it had to come from within.

In Mill's economics value had its formal place; it was a subject of theoretical inquiry just as the convention of property, the law of population, and the domain of state control were subjects of theoretical inquiry. It was still one of many subjects of speculation, but the bonds which bound it to monetary institutions were being severed. It already showed a tendency to read itself into distributive inquiries, into the general theory of production, and even into the larger question of the place of the state in economic development. The newer subject, isolated and traditionalized, required for its continued existence a concept about which it could achieve a new organic unity, and value even then was in position to pass into that eminence.

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[*To be continued*]